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C O N F I D E N T I A L SECTION 01 OF 02 DUBAI 003999

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SUBJECT: POSSIBLE GASOLINE RATIONING IN IRAN

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CLASSIFIED BY: Jillian L. Burns, Acting Consul General, Dubai, UAE.  
REASON: 1.4 (b), (d)

1.(C) Summary: Iran's Oil Minister announced June 23 that on September 23 Iran will stop importing gasoline and begin rationing. The government says it will not raise gasoline prices -- which are highly subsidized -- in order to prevent inflation. A government spokesman dismissed an earlier proposal of a dual pricing mechanism to reduce consumption. The Majles Energy Commission head said that Majles members disagree over when and how to implement rationing. In his view, rationing should only begin once the government expands public transportation options and converts cars to run on natural gas. He predicted the Majles will likely fund additional gasoline imports through the end of the Persian year (March 20). End Summary.

2.(C) Iranian Oil Minister Kazem Vaziri-Hamaneh declared June 23 that Iran will stop importing gasoline on September 23 and begin to ration the remaining reserves. Economic Minister Davoud Danesh-Jafari confirmed the administration's plan the next day. These announcements follow Vaziri-Hamaneh's April 7 statement that the government cut this year's gasoline import budget (the Iranian year began on March 21) from \$4 billion to \$2.5 billion, meaning that subsidies will run out by the middle of the year -- September 23. On June 26, Vaziri-Hamaneh added that the government may limit motorists to less than five liters per day. Only taxis and public transportation vehicles would receive more. In order to limit inflation, the government will not raise gasoline prices.

No to Dual Pricing

3.(C) Government spokesman Gholam-Hossein Elham said June 26 that the government opposes a dual-pricing system. He did not specify what he meant by "dual-pricing," but presumably he was referring to a system where any gasoline purchased over the monthly ration would be sold at a higher price. Atieh Bahar Consulting -- a Tehran-based company -- reported that Danesh-Jafari and the Majles members agreed to reject dual-pricing. In a conversation prior to Vaziri's June 23 announcement, Koichiro Tanaka, a senior Iran analyst at Japan's Institute of Energy Economics, told Acting Consul General that if the government opts for a dual-price system, rationed gas will probably be set at the current GOI subsidized price of 9

cents per liter (34 cents/gallon), and purchases beyond the quota will be roughly twice that. He said he cannot imagine Iranians paying more and certainly not market price (55 cents/liter according to Vaziri-Hameneh).

#### Debate in the Majles

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4.(C) According to media reports on June 25 and 26, Majles Energy Commission head MP Kamal Daneshyar said that Majles deputies disagree over when and how to implement rationing. In his opinion, the government should not start gasoline rationing before it expands public transport by adding thousands of buses, taxis, and minibuses; converts a significant portion of vehicles from gasoline to natural gas fuel; and phases out dilapidated vehicles. As this cannot be completed by fall, he predicts rationing will not begin this Iranian year and that the Majles will approve additional funding -- perhaps as much as 5 billion dollars -- for gasoline imports. On the other hand, he said some Majles deputies think rationing should start in September using "smart cards" (reftel). Tanaka doubted Iran could produce the supporting infrastructure for "smart cards" in the near future. He thinks ration stamps or something similar would be used instead. Atieh Bahar Consulting reported Vaziri-Hameneh said a select group of cabinet ministers and Majles deputies will make a final decision about rationing on June 29.

#### The Irony of an Oil-Rich Country Rationing Gas

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5.(U) Even though Iran sits atop the world's second largest oil reserves and is the fourth biggest oil producer (second in OPEC), its refineries can only process around 40 million liters of gasoline per day (LPD). It does not have the personnel, expertise, or resources, moreover, to increase its refining capacity substantially in the short to mid-term, according to news reports and various experts. Iran's demand, meanwhile, is some 70 million LPD, which requires it to import 30 million LPD primarily from India via Western European traders

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(Netherlands-based Vitol is its biggest supplier). The government buys gasoline on the world market and sells it domestically at a huge loss, to keep prices low. Gasoline prices in Iran are among the lowest in the world.

6.(C) Comment: Gasoline rationing is a surprising move for a government that projects a populist image. The reason may be simply to combat the major drain that gasoline subsidies have on the budget. It could also be an attempt to preempt any threat of sanctions on gasoline imports to Iran. The domestic political fallout of gasoline rationing is unknown, but it is likely that if the government rations gasoline without raising the price, rent-seeking opportunists will easily find ways around the system. Rationing will particularly hit hard the many Iranians who use their personal vehicles as gypsy cabs after they leave their official job, in order to make ends meet. Iranian politicians have also not answered the question of the impact of rationing on prices of goods, given that most traded goods in Iran move by road.

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